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SUBJECT: U.S.-CHINA TRANSPORTATION FORUM AGREES TO BROAD BILATERAL COOPERATION

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¶1. (SBU) SUMMARY: China sees an opportunity in the current global financial crisis to develop transportation infrastructure, Ministry of Transportation (MOT) Vice Minister Weng Mengyong told U.S. Department of Transportation (DOT) officials attending the Strategic Economic Dialogue's (SED) first U.S.-China Transportation Forum (TF) on December 3. The TF brought together U.S. and Chinese government and industry representatives to share approaches on maximizing transportation capacity through increased infrastructure efficiency.

The two sides agreed to establish working groups on new technologies in transport, the transport of hazardous materials, urban congestion, innovative financing, and disaster assistance coordination. DOT presentations focused on urban congestion, Next Generation Air Transportation Systems and advances in rail technology, while China's MOT presenters addressed China's port industry, highway construction financing policy and disaster assistance coordination. DOT announced a partnership with the U.S. Trade and Development Agency (USTDA) to provide training to Chinese helicopter pilots for search and rescue missions. Both sides agreed that the forum would serve as the foundation for expanding bilateral cooperation to find solutions for the pressing transportation problems of the 21st century. END SUMMARY.

¶2. (SBU) Led by Deputy Secretary Thomas Barrett, the DOT delegation also took part in bilateral meetings with Vice Minister of Transport Weng Mengyong and Vice Minister of Railways Hu Yadong and a December 2 roundtable discussion with American Chamber of Commerce (AmCham) members whose companies deal with transportation. In addition, EconOff met with representatives of the shipping companies APL and COSCO on November 25. These meetings, along with the presentations and discussions at the TF, shed light on China's rapidly developing transportation infrastructure and the country's most significant aviation, maritime, railway, highway and disaster relief challenges.

U.S.-China Transportation Forum

¶3. (SBU) VM Weng opened the Transportation Forum by stressing that the development of transportation infrastructure is a major component of China's recently announced stimulus package. Of the ten priority areas of the stimulus package, three are focused on transportation: water infrastructure, the rural road network and railways. In his opening remarks, Deputy Secretary Barrett highlighted the progress that both countries have made in improving the efficiency of existing transportation networks and called on both sides to share their expertise to improve transportation capacity and boost trade. Deputy Assistant Secretary Joel Szabat presented the major findings of the Draft Transportation Study. He identified four main areas in which progress is needed in order to reduce constraints and inefficiencies in transportation networks: 1)removal of bottlenecks and capacity expansion; 2)more efficient

use of the supply chain; 3) use of innovative financing mechanisms for infrastructure; and 4) reducing urban congestion. Both parties agreed to share expertise on the more productive utilization of existing technologies and to make progress on the adoption of emerging technologies. The TF concluded with Deputy Secretary Barrett and VM Weng signing a Joint Statement that commits to the establishment of working groups on new technologies in transport, the transport of hazardous materials, urban congestion, innovative financing, and disaster assistance coordination.

Aviation

¶4. (SBU) At the TF, Civil Aviation Administration of China (CAAC) Air Traffic Management Bureau Deputy Director-General Lu Xiaoping discussed the rapid growth in China's aviation transportation sector. The number of airports is expected to rise from a projected 180 in 2010 to 250 by 2020, while in the same period China's aircraft fleet is expected to rise from 1580 planes to 2600. DDG Lu said the major limitations of the current system include the inefficient use of airspace resources, insufficient air traffic management (ATM) infrastructure and the lack of collaboration in decision-making. He stressed that ATM would continue to rely on existing infrastructure in the near term while steadily progressing towards greater adoption of new equipment and technology. DDG Lu also noted that the adoption of satellite-based navigation is a critical goal and that trials of Next Generation ATM systems have already been launched.

¶5. (SBU) At the roundtable discussion with AmCham members, representatives of Boeing and United Technologies Corporation (UTC) stressed the need for China to train more pilots and open more of its air space for commercial flights. AmCham's Aviation Cooperation

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Program (ACP) recently completed a study that describes the benefits of shifting more air space from military air traffic control to general aviation control. For example, airlines' fuel usage could be reduced by 20 percent with a more flexible air space policy. A representative of General Electric (GE) raised the issue of U.S. visas, arguing that the long processing time for Security Advisory Opinions (SAO) hurts U.S. businesses in the aviation and other transportation sectors. In one case she cited, the president of a Chinese airline missed a business trip to the U.S. because the SAO processing time delayed the issuance of his visa.

Maritime

¶6. (SBU) Several presentations at the TF dealt with maritime issues. Captain Wei Jiaifu, President and CEO of China's largest shipping company, COSCO Group, focused on problems that U.S. ports pose. He said the high cost of U.S. inland railways, lack of efficient inter-modal connections at ports, prevalence of labor strikes at U.S. west coast ports, and the emergence of Prince Rupert Port in British Columbia have resulted in a significant amount of U.S.-destined goods being shifted away from U.S. west coast ports. He also predicted that, when the expansion of the Panama Canal is completed in 2014, COSCO and other shipping companies will be able to send larger ships through the Canal to ports in the Gulf of Mexico and the U.S. east coast for less than it would cost to ship goods to the west coast and then cross-country by rail.

¶7. (SBU) MOT Department of Water Transport Deputy Director-General Zhang Shuoguo discussed China's long-term development strategy for port construction and enhancement. He said China's major goal is improving port design and construction that focuses on improving safety and security while increasing energy efficiency and lowering emissions. DDG Zhang dismissed media reports suggesting an overcapacity at China's ports, arguing that currently most ports are operating above their intended capacity. This high handling capacity is achieved at the cost of port workers who are logging significant amounts of overtime to meet demand. VM Weng also pointed out that ports are operating near double their intended capacity and that further investments in port infrastructure are needed to alleviate this problem. (COMMENT: Shipping industry representatives told EconOff that they face serious difficulties due to the global economic slowdown. END COMMENT.)

Railways

¶18. (SBU) In a December 2 meeting at the Ministry of Railways (MOR), Vice Minister Hu Yadong said China plans to speed up the construction of railway infrastructure as part of the government's recently announced USD586 billion stimulus package. By 2020, China plans to construct 40,000 kilometers of new railway with increasing focus on electric lines that generate less pollution than diesel-powered trains. VM Hu stressed the land-use and energy-saving advantages of rail, pointing out that a new railway requires only 60 percent of the land of a comparable stretch of highway and uses one-third of the amount of energy.

¶19. (SBU) At the AmCham roundtable, a representative of General Electric (GE) noted that U.S. companies that deal with railways face two obstacles to doing business in China: 1) China tends to favor European companies for railway projects, and 2) China puts pressure on U.S. companies to transfer technology as part of trade deals. A U.S. industry representative at the TF noted that serious weaknesses remain in China's rail system, including continued investment in outdated rail technologies and the lack of containerized train shipment, particularly refrigerated train cars.

Highway Construction

¶110. (SBU) At the TF, MOT Department of Comprehensive Planning Deputy Director-General Li Xinghua made a presentation on highway construction financing. He noted that China's highway construction budget has risen to over 3 percent of GDP and will continue to rise as the infrastructure component of the stimulus package accelerates completion of a nationwide highway system. DDG Li stated that China is determined to reduce externalities such as the environmental footprint of road construction. The government is in the process of decreasing the number of toll roads and toll stations to reduce driving inconvenience and congestion. However, DDG Li noted that, for the foreseeable future, tolls will be necessary to pay back the bank loans used to finance road construction. He stressed that China will maintain its policy of encouraging road construction in the western part of the country despite the fact that such projects are often several times more expensive than comparable projects in more developed regions. The government currently provides western provinces additional leverage and direct funding from the central

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budget to facilitate such construction.

Disaster Relief

¶111. (SBU) At the TF, MOT Comprehensive Planning Department Deputy Director-General Cai Yuhe spoke about China's recent experience with disaster relief, offering lessons learned from the crippling snowstorms in January and the devastating Sichuan earthquake in May. He said the massive losses resulting from such disasters revealed the need for pre-emptive contingency planning for emergencies. DDG Cai noted that China still lacks rapid response and offshore rescue capacities as well as the ability to quickly re-open "lifeline" transport links, transport coal to power facilities in afflicted areas, and rapidly and accurately collect data in a disaster environment. He said that MOT is interested in adopting U.S. best practices and welcomes the USTDA offer to fund the training of Chinese helicopter pilots for search and rescue missions.

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